

Message Text

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PAGE 01 RIYADH 00239 181036Z

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SUBJECT: HOW STANDS AMERICAN BUSINESS IN SAUDI ARABIA - FALL 1977?

1. SUMMARY: WITH FALL COMES THE RETURN OF THE ROYAL COURT AND GOVERNMENT OF SAUDI ARABIA TO ITS CAPITAL IN RIYADH. IN A SENSE GOVERNMENT OF SAUDI ARABIA TO ITS CAPITAL IN RIYADH. IN A SENSE IT MARKS THE OPENING OF A NEW YEAR. MINISTERS AND OTHER GOVERNMENT OFFICIALS RETURN TO THEIR DESKS AND LOOK AHEAD TO THE NEXT TEN MONTHS AND THE PROJECTS THEY INTEND TO IMPLEMENT. IT IS USEFUL THEN TO ASSESS, IN GENERAL TERMS, HOW STANDS AMERICAN BUSINESS IN THE KINGDOM AS THE GOVERNMENT OPENS A NEW YEAR.

2. IN SUMMARY,
AMERICAN BUSINESS APPEARS TO BE GOING QUITE WELL WITH THE PROSPECT THAT 1977-78 WILL BE ANOTHER BIG YEAR FOR U.S. COMPANIES OPERATING IN SAUDI ARABIA. THIS APPEARS, AT FIRST GLANCE, STRANGE IN VIEW OF THE TOUGH AND POTENTIALLY DANGEROUS ECONOMIC ISSUES THAT AROSE LAST YEAR BETWEEN U.S. AND SAUDI ARABIA. YET IN SPITE OF THE TAX LAW, THE
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PAGE 02 RIYADH 00239 181036Z

BOYCOTT ISSUE, AND THE OUTBURSTS OF SAUDI OFFICIALS AGAINST "SOME FOREIGN COMPANIES WHO GOUGE SAUDI POCKETS", MOST FREQUENTLY HEARD COMMENTS OF SAUDI OFFICIALS AT THIS TIME ARE VERY POSITIVE TOWARD AMERICAN BUSINESS AND TOWARD STEADY EXPANSION OF U.S. ECONOMIC PRESENCE IN KINGDOM.

3. 1976-1977 WAS A YEAR OF CONCERN AND FEARS. AMERICAN COMPANIES

FACE A NEW TAX LAW WHICH WITH ITS INCREASED TAXATION OF INDIVIDUAL CONCERNS COULD HAVE PRICED MOST U.S. COMPANIES OUT OF THE MARKET. MANY COMPANIES BEGAN TO SHIFT RECRUITMENT AWAY FROM U.S. TOWARD EUROPE TO LESSEN IMPACT TAX LAW WOULD CAUSE ON COMPETITIVE POSITION OF FIRM. INDIVIDUAL AMERICANS BELIEVED NEW TAX LAW GAVE THEM NO OPTION BUT TO RETURN TO U.S. AND THERE WAS, IN FACT, SOME EXODUS OF RESIDENT AMERICANS. POSTPONEMENT OF EFFECTIVE DATE OF NEW LAW, COUPLED WITH "CERTAINTY" ON PART OF MANY AMERICANS IN SAUDI ARABIA THAT CONGRESS WOULD AMEND TAX LAW TO MODIFY ITS SEVERE IMPACT, WORKED TO KEEP MOST

AMERICANS AT THEIR JOBS. IN TRUTH, THE ABSOLUTE NUMBER OF AMERICANS IN RIYADH CONTINUES TO GROW. MOST COMPANIES CONTINUE TO TALK IN TERMS OF AN EXPANDED AMERICAN PRESENCE WORKING ON THEIR PROJECTS.

4. MANY COMPANIES BELIEVED NEW BOYCOTT LAW WAS FINAL CURTAIN TO THEIR PARTICIPATION IN THE GLORIOUS BUSINESS BOOM OF SAUDI ARABIA. THE ENVISIONED THE LOSS OF MAJOR CONTRACTS TO NON-U.S. FIRMS BECAUSE U.S. LAW WOULD PROHIBIT THEIR COMPLIANCE WITH SAUDI BOYCOTT REGULATIONS. THEY SAW AN INABILITY TO OBTAIN LETTERS OF CREDIT AND AN IMPOSSIBILITY OF NORMAL COMMERCIAL RELATIONS. THE NEW U.S. BOYCOTT REGULATIONS ARE NOT YET IN EFFECT; BUT COMPANIES HAVE HAD OPPORTUNITY TO EXAMINE THEM AND THEY ARE NOW MORE OPTIMISTIC THAT THEY CAN CONTINUE TO WORK IN SAUDI ARABIA AND COMPLY, AT SAME TIME, WITH NEW U.S. BOYCOTT LAW.

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PAGE 03 RIYADH 00239 181036Z

5. ON SAUDI SIDE THEIR IS NEW MORE RELAXED ATTITUDE ABOUT U.S. BOYCOTT LAW. ONE OFFICIAL SAID VERY EXPLICITLY THAT WHILE CONGRESS WAS DRAFTING LAW, IT WAS NECESSARY TO MAKE HARSH AND UNCOMPCBMISING STATEMENTS IN ORDER TO CONTER ENORMOUS INFLUENCE OF OTHER PRESSURE GROUPS. NOW THAT LAW WAS PASSED, THE OFFICIAL SAID, SAUDI ARABIA WOULD DO ITS BEST TO SEEK WAY OF ALTERING OR AMENDING ITS BOYCOTT REGULATIONS TO ENABLE U.S. COMPANY TO CONTINUE TO WORK IN KINGDOM WITHOUT VIOLATING U.S. LAW. IN SHORT, THERE IS ATTITUDE OF FLEXIBILITY AND OPENNESS WHICH HAS REPLACED PRINCIPLED AND DOGMATIC POSITIONS HELD PUBLICLY LAST YEAR.

6. THE POSITIVE FEELINGS ON SAUDI SIDE ARE APPEARING IN MINISTRIES WHICH PREVIOUSLY APPEARED HOSTILE. ONE OF THE CLOUDS OF THE 1977 SPRING WAS ANNOUNCEMENT BY MINISTER OF PLANNING HISHAM NAZER THAT SOME FOREIGN FIRMS WERE INFLATING PROJECT COSTS AND THEREBY MAKING ENORMOUS PROFITS. SEVERAL CONTRACTS WERE ACTUALLY CONCELED AND MANY AMERICAN BUSINESSMEN FELT U.S. COMPANIES WOULD BE USED AS SCAPEGOATS PARTICULARLY IN VIEW OF NEW TAX AND BOYCOTT LAWS. THAT HAS NOT OCCURRED. IN FACT, THE MINISTRY OF PLANNING DEVELOPED ITS OWN MOVE TOWARD U.S. TECHNOLOGY AND EXPERTISE. LAST WEEK HISHAM NAZER'S DEPUTY AND CLOSE FRIEND VOICED IT CLEARLY WHEN TALKING TO GROUP OF

AMERICANS. "WE NEED AMERICAN COMPANIES ON OUR MAJOR PROJECTS. THEY HAVE PROVED TO BE RELIABLE PLANNERS AND EXECUTORS - WHICH IS IN STARK CONTRAST TO OUR EXPERIENCE WITH SEVERAL OTHER COUNTRIES."

7. THERE ARE OTHER INDICATIONS THAT THE MINISTRY OF PLANNING IS LOOKING MORE FAVORABLY ON AMERICAN FIRMS. THE ROYAL COMMISSION FOR JUBAIL AND YANBY, A PET PROJECT OF MINISTER NAZER, HAS STEADFASTLY OPPOSED USE OF SURETY BONDING BY U.S. COMPANIES OPERATING ON ITS PROJECTS. YET RECENTLY, COMMISSION SENT ONE OF ITS TOP FINANCIAL SPECIALISTS TO U.S. TO SEEK OUT U.S. INSURANCE COMPANIES TO WORK OUT MUTUALLY ACCEPTABLE FORMULA FOR THEIR PARTICIPATION IN SUPPORT OF JUBAIL AND YANBU PROJECTS. IN REPLY TO QUESTION BY LIAISON OFFICER AS TO WHY THE COMMISSION MAY REVERSE ITSELF, SPECIALIST SAID COMMISSION HAS CONCLUDED THAT IT IS ONLY THROUGH MASSIVE NONVOLVE LIMITED OFFICIAL USE

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PAGE 04 RIYADH 00239 181036Z

MENT OF U.S. COMPANIES THAT THESE TWO PROJECTS CAN BE FULLY DEVELOPED.

HE WENT ON TO SAY THAT SINCE USG DOES NOT BACK ITS COMPANIES FINANCIALLY AS DO SOME OTHER DEVELOPED COUNTRIES, U.S. FIRMS WOULD NOT BE ABLE TO COMPETE WITHOUT USING SURETY COMPANIES TO PROVIDE PERFORMANCE AND TENDER BONDS. IN SHORT, THE COMMISSION WANTS U.S. COMPANIES INVOLVED IN THESE ENORMOUS PROJECTS AND IS NOW WILLING TO CONSIDER REVERSING ITS POLICY ON SURETY BONDING TO FACILITATE THAT INVOLVEMENT.

8. AND WHAT ABOUT THAT COMPETITION FROM NON-U.S. COMPANIES? AS SAUDI MARKET GROWS AND DEVELOPMENT PROJECTS MOVE FORWARD, NON-U.S. FIRMS ARE COMPETING TO WIN LARGE CONTRACTS, BUT TWO SAUDI OFFICIALS HAVE HAD COMMENTS ON THE JAPANESE IN RECENT DAYS. MINISTER OF COMMERCE SOLAIM REACTED QUICKLY TO ONE AMERICAN BUSINESSMAN IN RECENT COMMERCE TRADE MISSION WHO SAID U.S. COMPANIES COULD NOT REALLY COMPETE. THE JAPANESE ARE SLOW IN THEIR RESPONSE TO OFFERS AND, ONCE THEY GET A PROJECT, REFER ALL DECISIONS, EVEN RELATIVELY UNIMPORTANT ONES, TO TOKYO FOR DECISION. HE SAID SAUDIS HAVE HAD QUITE ENOUGH OF WORKING WITH JAPANESE. WHAT SAUDI ARABIA NEEDS ARE DYNAMIC COMPANIES WHO HAVE PROVEN RELIABILITY AND RAPID ON-THE-SPOT DECISION-MAKING CAPABILITY.

9. DEPUTY MINISTER OF PLANNING SAID SAME THING IN SLIGHTLY DIFFERENT TERMS WHEN SPEAKING TO AMBASSADOR WEST LAST WEEK. "WE ARE FED UP WITH JAPANESE FIRMS," HE SAID, "WHO GIVE US REDICULOUSLY LOW BIDS ON PROJECTS THEN BEGIN TO NEGOTIATE ALMOST IMMEDIATELY FOR MORE MONEY."

HE MENTIONED ONE PROJECT (UNSPECIFIED) WHERE JAPANESE FIRM SPENT ALL MONEY BUT HAD PROJECT ONLY HALF FINISHED. COMPANY WALKED OFF LEAVING TOATLLY USELESS STRUCTURE.

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PAGE 05 RIYADH 00239 181036Z

10. AMERICAN FIRMS HAVE WON SOME LARGE CONTRACTS RECENTLY. WESTERN ELECTRIC GOT MULTI-MILLION DOLLAR CONTRACT IN MINISTRY OF PTT FOR MICROWAVE SYSTEM. HARRISON ELECTRONICS LANDED ANOTHER CONTRACT FOR 10 EARTH SATELLITE STATIONS IN SAME MINISTRY AND ITT AND WESTERN ELEC-

TRIC ARE SERIOUS CONTENDERS FOR LARGE AUTOMATIC TELEPHONE PROJECT. RECENTLY UNIVERSAL OIL PRODUCTS WON TENDER FOR SMALL DESALINIZATION PLANT IN JIDDA. ALSO AMERICAN FIRMS WILL BE RESPONSIBLE FOR CONSTRUC-

TIONS, MANAGEMENT CONTRACT AND FOR MASTER PLAN AND DESIGN CONTRACT FOR

VOCATIONAL TRAINING AND CONSTRUCTION PROJECT IN MINISTRY OF LABOR. ANOTHER U.S. COMPANY IS EXPECTED TO GET MANAGEMENT CONTRACT FOR MASSIVE

YANBU PROJECT, AND BIG FIRMS LIKE BECHTEL (RIYADH AIRPORT) AND SHELL (JUBAIL PETROCHEMICAL COMPLEX) CONTINUE TO PURSUE LARGE DOLLAR PROJECTS.

11. IN CONCLUSION, ONE MUST POINT OUT THAT THERE HAS EXISTED AND CONTINUES TO EXIST A WARM AND CORDIAL BUSINESS RELATIONSHIP BETWEEN SAUDI ARABIA AND U.S. IT MANIFESTS ITSELF IN MANY SMALL BUT SIGNIFICANT WAYS FROM THE WELCOME GIVEN AMERICAN TRADE MISSIONS TO THE PREFERENCE SAUDIS EXPRESS FOR AMERICAN PRODUCTS AND AMERICAN TECHNOLOGY. THIS BASIC RELATIONSHIP HAVING WETTERED SEVERAL STORMS LAST YEAR, APPEARS TO BE STRONG AND VIBRANT IN FALL 1977. THIS IS NOT TO SAY THE FUTURE IS FREE OF OBSTACLES. THAT IS CLEARLY NOT THE CASE, BUT CURRENT SITUATION DOES LEAD ONE TO CONCLUDE THAT AMERICAN BUSINESSMEN WHO COME TO SAUDI ARABIA THIS YEAR WILL FIND A FRIENDLY AND RECEPTIVE MARKET AND A GOVERNMENT WHICH DESIRES INVOLVEMENT OF AMERICAN FIRMS IN SAUDI ARABIA'S DEVELOPMENT EFFORT.

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